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SUBJECT: CROSS-STRAIT ECONOMIC ROUNDUP - FOURTH QUARTER  
2004

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Summary

¶11. Taiwan chipmakers PowerChip and ProMos submitted applications to Taiwan's Ministry of Economic Affairs (MOEA) Investment Commission for permission to build semiconductor manufacturing facilities in the PRC. If approved these two plants together with Taiwan Semiconductor Manufacturing Co.'s (TSMC) plant near Shanghai will fill the quota imposed by MOEA for this type of investment. Taiwan Formosa Plastic Group also submitted a naphtha cracker investment application to PRC authorities even though this category of investment has not yet been legalized by Taiwan. The Taiwan government further liberalized the operations of Taiwan financial firms in the Mainland and import restrictions on PRC goods. Four Taiwan firms announced additional investment in cooperation with the Xiamen City Government to develop Xiamen's aviation facilities. (End Summary.)

Investment

¶12. Both PowerChip and ProMos submitted applications the last week of December to Taiwan's MOEA Investment Commission for permission to build eight-inch wafer semiconductor manufacturing facilities in the PRC. The Investment Commission had previously announced that it would approve only three applications for semiconductor manufacturing in the Mainland. With TSMC's plant, which was initially approved in 2003, approval of the new applications will fill the quota. Powerchip did not reveal the amount of its proposed investment, but ProMos indicated it planned to invest approximately USD 800 million. The Investment Commission will review the application to ensure the two firms meet all the requirements, particularly the required investment in twelve-inch wafer manufacturing in Taiwan. Local media speculated that ProMos's application might face difficulty due to its financial situation and a lawsuit involving its parent company, Mosel Vitelic Inc.

¶13. On October 30, Taiwan Formosa Plastic Group (TFP) submitted its naphtha cracker investment proposal to PRC authorities for approval. TFP plans to build a plant in Ningpo with the capacity to produce 1.2 million tons of PVC per year. Because Taiwan has not yet legalized this type of investment in the PRC, TFP said it would not proceed with the investment until Taiwan authorities had also approved it.

Finance

¶14. During the fourth quarter of 2004, the Taiwan government took two steps further liberalizing the activities of Taiwan financial firms in Mainland China. The Mainland Affairs Council (MAC) announced on November 29 that securities and futures companies would be permitted to set up branch offices in the PRC and one month later announced that Taiwan financial holding companies could set up representative offices in the PRC. The PRC also made progress toward cross-Strait financial liberalization. On December 30, the PRC approved a request from Cathay Financial Holding Co., Taiwan's biggest financial services provider, to offer insurance services in China. Cathay Financial will provide these services through a joint venture with China Eastern Air Holding Co.

Trade

¶15. During the quarter, Taiwan's Board of Foreign Trade (BOFT) lifted imports bans for 18 PRC products, including certain types of soaps, building stones, metal alloys, and motors.

¶ 16. Although Taiwan has not lifted import bans for PRC mobile phones, PRC's leading mobile phone name brand, Bird International Company, reached an agreement with a Taiwan company to import its products via Malaysia with Malaysian product of origin certificates. Bird is the first mainland mobile phone manufacturing firm to sell its products in Taiwan under its mainland name brand. At least four other PRC mobile phone manufacturers sell their products in Taiwan under a different brand name.

¶ 17. On November 15, the PRC announced that it would impose 20-74 percent antidumping taxes on ethylene glycols (EG) imports from Taiwan, Japan, the U.S., Mexico, Germany, and two other countries. Ethylene glycols are used in anti-freeze and de-icing solutions. According to Taiwan's BOFT, the PRC is Taiwan's largest ethylene glycols export market, accounting for 79 percent of Taiwan's global EG exports.

#### Transportation

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¶ 18. On October 7, Taiwan's China Airlines (CAL), EVA Airways, Far East Air Transport Corp., Taiwan Airport Service Co., Ltd and Xiamen City government announced they would together build a bonded warehouse at Xiamen's airport. Investment by the four Taiwan companies totals USD 6.8 million, giving them a 49 percent stake with Xiamen City Government holding the rest. These five entities had previously cooperated to finance the Xiamen Air Cargo Terminal, which was inaugurated in September.

¶ 19. The PRC's China Eastern Airlines and CAL initiated a joint service from Shanghai to Taipei via Laoag, the Philippines, in November. China Eastern Airlines provides Shanghai-Laoag service and CAL connects Laoag and Taipei. The overall flying time is 4 hours and the cost is NTD 8,000, about half the cost of transit via Hong Kong or Macao.

#### Travel Policy

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¶ 110. Two events marked further relaxation of restrictions on Mainland Chinese travel to Taiwan. After the PRC's Fujian province announced in September that Fujian residents would be permitting to travel to Taiwan's Kinmen for tourism, the first group of 55 Fujian tourists arrived December 7 via the mini-links. On November 1, while announcing the appointment, Chen Chung-hung as the Director of the Taipei Economic and Cultural Center in Macao, MAC Chairman Joseph Wu also announced that MAC will soon launch online visa applications for residents of Hong Kong and Macau who wish to visit Taiwan.

#### Exchanges

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¶ 111. On October 17, Taiwan's former Vice Finance Minister Day Li-nin for the first time attended an International Advisor Committee meeting for the Beijing-based China Securities Regulatory Commission as an advisor. The meeting discussed the development and risk management of the PRC's securities market. Taiwan's MAC is studying whether Day's position as an advisor to this institution is prohibited under Taiwan law or would require prior approval from the Taiwan government. While the China Securities Regulatory Commission is directly under the PRC's State Council, it remains unclear whether the affiliated International Advisory Committee meets the definition of an "official" organization.

¶ 112. After waiting more than five months, Pao Cheng-Kang, Taiwan's new representative to Hong Kong, was granted a visa in mid-October and assumed his post as Managing Director of the Chung Hwa Travel Service in Hong Kong.

¶ 113. Frequent cross-Straits exchanges between businesses and academic institutions continued during the quarter. Highlights, involving government officials, include the following:

-- Taiwan's Financial Supervisory Commission (FSC) Deputy Director Susan Chang led a delegation of senior financial officials from the Council for Economic Planning and Development, the Central Bank of China (CBC) and MAC to Dalian for the tenth Cross-Straits Financial Academic Conference October 24-28.

-- Taiwan's Lienchiang County Commissioner Chen Hsueh-sheng led a delegation to Fuzhou October 26 and learned from Fujian Deputy Governor Wang Mexiang details of Fujian's plan to liberalize travel for Fujian residents to Kinmen and Matsu.

-- Li Xiaoyun, Director of the Center of Cross-Straits

Economic & Science Cooperation (CSESC) of the PRC State Council's Taiwan Affairs Office, and Feng Zhuozhi, President of China Sunrise Travel Service (CSTSTOUR) visited Taiwan to attend the Taipei International Tourism Exhibition on November 10.

-- Jiangsu Intellectual Property Office (IPO) Director General Zhu Yu attended the 2004 Taiwan-Jiangsu IPR conference held in Taiwan on December 8. Taiwan's IPO Deputy Jack Lu also attended the conference.

PAAL